REPORT OF MARKET CONDUCT EXAMINATION OF

LITITZ MUTUAL INSURANCE COMPANY

Lititz, Pennsylvania

AS OF June 23, 2009

COMMONWEALTH OF PENNSYLVANIA



INSURANCE DEPARTMENT MARKET CONDUCT DIVISION

Issued: July 20, 2009

VERIFICATION

Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).

Joseph S. Meizen, Examiner-In-Charge

Sworn to and Subscribed Before me

This /3 Day of Apri/

, 2009

Notary Public

COMMONWEALTH OF PENNSYLVANIA

NOTARIAL SEAL

THERESA M. SENECA, Notary Public City of Harrisburg, Dauphin County My Commission Expires Aug. 15, 2010

LITITZ MUTUAL INSURANCE COMPANY

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BEFORE THE INSURANCE COMMISSIONER OF THE COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 20 day of Quity, 2008, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Ronald A. Gallagher, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



Toel & Ario

Insurance Commissioner

Market Conduct Examination as of the close of business on June 23, 2009

ORDER

A market conduct examination of Lititz Mutual Insurance Company (referred to herein as "Respondent") was conducted in accordance with Article IX of the Insurance Department Act, 40 P.S. §323.1, et seq., for the period July 1, 2007 through June 30, 2008. The Market Conduct Examination Report disclosed exceptions to acceptable company operations and practices. Based on the documentation and information submitted by Respondent, the Department is satisfied that Respondent has taken corrective measures pursuant to the recommendations of the Examination Report.

It is hereby ordered as follows:

- 1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.
 - 2. Respondent shall comply with Pennsylvania statutes and regulations.

3. Respondent shall comply with the recommendation contained in the attached

Report.

4. Respondent shall file an affidavit stating under oath that it will provide each

of its directors, at the next scheduled directors meeting, a copy of the adopted Report

and related Orders. Such affidavit shall be submitted within thirty (30) days of the date

of this Order.

The Department, pursuant to Section 905(e)(1) of the Insurance Department

Act (40 P.S. § 323.5), will continue to hold the content of the Examination Report as

private and confidential information for a period of thirty (30) days from the date of

this Order.

BY: Insurance Department of the Commonwealth

of Pennsylvania

(July 20, 2009)

Ronald A. Gallagher, Jr.

Deputy Insurance Commissioner

I. INTRODUCTION

The market conduct examination was conducted at Lititz Mutual Insurance Company's office located in Lititz, Pennsylvania, from March 16, 2009, through March 27, 2009. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review those areas of concern in order to determine the potential impact upon Company operations or future compliance. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties.

In certain areas of review listed in this Report, the examiners will refer to "error ratio." This error ratio is calculated by dividing the number of policies with violations by the total number of policies reviewed. For example, if 100 policies are reviewed and it is determined that there are 20 violations on 10 policies, the error ratio would be 10%.

Throughout the course of the examination, Company officials were provided with status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company personnel to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the officers and employees of the Company during the course of the examination is hereby acknowledged.

The undersigned participated in this examination and in preparation of this Report.

Chester A. Derk, Jr., AIE, HIA

Chts A. Och

Market Conduct Division Chief

Joseph S. Meizen

Market Conduct Examiner

Jerry L. Houston, AIE, CPCU

Market Conduct Examiner

Constance L. Arnold

Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted on Lititz Mutual Insurance Company, hereinafter referred to as "Company," at their office located in Lititz, Pennsylvania. The examination was conducted pursuant to Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2007, through June 30, 2008, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania insurance laws and regulations.

The examination focused on Company operations in the following areas:

- 1. Property
- Underwriting Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations and declinations.
- Rating Proper use of all classification and rating plans and procedures.
- 2. Commercial Property
- Underwriting Appropriate and timely notices of nonrenewal, midterm cancellations, 60-day cancellations, renewals and declinations.
- 3. Claims
- 4. Forms
- 5. Advertising

- 6. Complaints
- 7. Licensing

III. COMPANY HISTORY AND LICENSING

Lititz Mutual Insurance Company was incorporated on September 17, 1888, as the Agricultural Mutual Fire Insurance Company of Lancaster County under the laws of Pennsylvania, and began business the same year. The title was changed to the Lititz Agricultural Mutual Fire Insurance Company on January 5, 1901, and to it's present form in January 1941. The Southern Mutual Insurance Company, Quarryville, Pennsylvania, was merged with and into the Company on December 31, 1963.

LICENSING

Lititz Mutual Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on September 17, 1888. The Company is licensed in Delaware, Kansas, Maryland, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Virginia and West Virginia. The Company's 2008 annual statement reflects Direct Written Premium for all lines of business in the Commonwealth of Pennsylvania as \$19,433,094. Premium volume related to the areas of this review were: Fire \$1,482,270; Farm owners' Multiple Peril \$1,735,694; Homeowners Multiple Peril \$11,816,988; Commercial Multiple Peril (Non-liability portion) \$1,523,689; Commercial Multiple Peril (Liability portion) \$803,782 and Inland Marine \$295,086.

IV. UNDERWRITING PRACTICES AND PROCEDURES

As part of the examination, the Company was requested to supply manuals, underwriting guides, bulletins, directives or other forms of underwriting procedure communications for each line of business being reviewed. Agency bulletins and underwriting guides were furnished for homeowners, dwelling fire and commercial lines. The purpose of this review was to identify any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The following findings were made:

2 Violations Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. "Unfair Methods of Competition" and "Unfair or Deceptive Practices" in the business of insurance means: Unfairly discriminating by means of: Making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethic group, age, sex, family size, occupation, place of residence or marital status. The terms "underwriting standards and practices" or "eligibility rules" do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this Commonwealth and regulations promulgated by the Commissioner pursuant to such act. The Company's homeowner and dwelling fire underwriting guidelines referenced age and occupation.

V. UNDERWRITING

A. Property

1. 60-Day Cancellations

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], which prohibits an insurer from canceling a policy for discriminatory reasons and Title 31, Pennsylvania Code, Section 59.9(b), which requires an insurer who cancels a policy in the first 60 days to provide at least 30 days notice of the termination.

From the universe of 85 property policies which were cancelled within the first 60 days of new business, 2 files were selected for review. The policies consisted of homeowner and tenant homeowner. Both files were received and reviewed. No violations were noted.

2. Midterm Cancellations

A midterm cancellation is any policy termination that occurs at any time other than the twelve-month policy anniversary date.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the cancellation notice.

From the universe of 2,147 property policies which were cancelled midterm during the experience period, 91 files were selected for review. The property policies consisted of homeowners, tenant homeowners and owner occupied dwelling fire. All 91 files were received and reviewed. No violations were noted.

3. Nonrenewals

A nonrenewal is considered to be any policy, which was not renewed, for a specific reason, at the normal twelve-month anniversary date.

The primary purpose of the review was to determine personal lines compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(9) [40 P.S. §1171.5(a)(9)], which establishes the conditions under which cancellation of a policy is permissible along with the form requirements of the nonrenewal notice.

From the universe of 74 property policies which were nonrenewed during the experience period, 33 files were selected for review. The property policies consisted of homeowners and dwelling fire. All 33 files were received and reviewed. The 6 violations noted were based on 6 files, resulting in an error ratio of 18%.

The following findings were made:

2 Violations Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]

Prohibits canceling any policy of insurance covering owneroccupied private residential properties or personal property of
individuals that has been in force for sixty days or more or
refusing to renew any such policy unless the policy was

obtained through material misrepresentation, fraudulent statements, omissions or concealment of fact material to the acceptance of the risk or to the hazard assumed by the company; or there has been a substantial change or increase in hazard in the risk assumed by the company subsequent to the date the policy was issued; or there is a substantial increase in hazards insured against by reason of willful or negligent acts or omissions by the insured; or the insured has failed to pay any premium when due or for any other reasons approved by the Commissioner. The Company nonrenewed the policies for an improper reason. Reasons noted were: "claims" and "poor location provided".

4 Violations Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)]

Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. Entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance. The Company nonrenewed the 4 files noted for an improper reason. The Company required supporting coverage.

4. Declinations

A declination is any application that is received and the Company declines to write the coverage.

The primary purpose of the review was to determine compliance with Act 205, Unfair Insurance Practices Act, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)], discriminatory reasons.

From the universe of 105 personal property files which were identified as declinations by the Company during the experience period, 25 files were selected for review. No violations were noted.

B. Commercial Property

1. <u>60-Day Cancellations</u>

A 60-day cancellation is considered to be any policy, which was cancelled within the first 60 days of the inception date of the policy.

The primary purpose of the review was to determine compliance with Act 86, Section 7 (40 P.S. §3407), which requires an insurer, who cancels a policy that is in effect less than 60 days, to provide 30 days notice of termination no later than the 60th day unless the policy provides for a longer period of notification.

From the universe of 498 commercial property policies cancelled within the first 60 days, 18 files were selected for review. The commercial policies consisted of commercial package, commercial fire, BOP, general liability and tenant occupied dwelling fire. All 18 files were received and reviewed. No violations were noted.

2. Midterm Cancellations

A midterm cancellation is any policy termination that occurs at any time other than the twelve-month policy anniversary date.

The purpose of the review was to determine compliance with Act 86, Section 2 (40 P.S. §3402), which prohibits cancellation except for specified reasons and Section 3 (40 P.S. §3403), which establishes the requirements, which must be met regarding the form and condition of the cancellation notice.

From the universe of 500 commercial property policies cancelled midterm during the experience period, 57 files were selected for review. The commercial property files consisted of commercial package, commercial inland marine, commercial fire, tenant occupied dwelling fire, BOP and general liability. All 57 files were received and reviewed. The 3 violations noted were based on 3 files, resulting in an error ratio of 5%.

The following findings were made:

3 Violations Act 86, Section 4(a) [40 P.S. §3404(a)]

Requires that unearned premium be returned to the insured not later than 10 business days after the effective date of termination where commercial property or casualty risks are cancelled in mid-term by the insurer. The Company did not return the unearned premium to the insured within 10 business days after the effective date of termination for the 3 files noted.

3. Nonrenewals

A nonrenewal is considered to be any policy that was not renewed, for a specific reason, at the normal twelve-month policy anniversary date.

The review was conducted to determine compliance with Act 86, Section 3 (40 P.S. §3403), which establishes the requirements that must be met regarding the form and condition of the nonrenewal notice.

The universe of 15 commercial property policies nonrenewed during the experience period was selected for review. The commercial property policies consisted of tenant occupied dwelling fire, commercial fire, farm owners, and commercial package. All 15 files were received and reviewed. The violation resulted in an error ratio of 7%.

The following finding was made:

1 Violation Act 86, Section 3(a)(2) [40 P.S. §3403(a)(2)]

Requires that a nonrenewal notice be forwarded directly to the named insured or insureds at least 60 days in advance of the effective date of the termination. The Company did not provide at least 60 days notice of nonrenewal.

4. Declinations

A declination is any application that is received and the Company declines to write the coverage.

The primary purpose of the review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defined unfair methods of competition and unfair or deceptive acts or practices

From the universe of 97 commercial property files identified as declinations by the Company during the experience period, 41 files were selected for review. All 41 files were received and reviewed. The files consisted of

commercial fire, commercial package, BOP and general liability. No violations were noted.

5. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to measure compliance with Act 86, Section 1 (40 P.S. §3401), which requires 30 days advance notice of an increase in renewal premium.

From the universe of 4,481 commercial property policies renewed during the experience period, 60 files were selected for review. The commercial property policies consisted of tenant occupied dwelling fire, commercial fire, commercial inland marine, commercial package, business owners and farm owners. All 60 files were received and reviewed. No violations were noted.

VI. RATING

A. Homeowners

1. New Business

New business, for the purpose of this examination, was defined as policies written for the first time by the Company during the experience period.

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

From the universe of 847 homeowner policies written as new business during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

2. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in the Commonwealth. Also, no insurer shall make or issue

a contract or policy except in accordance with filings or rates which are in effect at the time.

From the universe of 21,123 homeowner policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

B. Tenant Homeowners

1. New Business

New business, for the purpose of this examination, was defined as policies written for the first time by the Company during the experience period.

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

From the universe of 252 tenant homeowner policies written as new business without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

2. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date. The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect at the time.

From the universe of 1,837 tenant homeowner policies renewed without surcharges during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

C. Dwelling Fire

1. New Business

New business, for the purpose of this examination, was defined as policies written for the first time by the Company during the experience period.

The purpose of the review was to measure compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan, which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates, which are in effect at the time.

The universe of 8 dwelling fire policies written as new business during the experience period was selected for review. All 8 files were received and reviewed. No violations were noted.

2. Renewals

A renewal is considered to be any policy, which was previously written by the Company and renewed on the normal twelve-month anniversary date.

The purpose of the review was to determine compliance with Act 246, Sections 4(a) and (h) (40 P.S. §1184), which require every insurer to file with the Insurance Commissioner every manual of classifications, rules and rates, every rating plan and every modification of any rating plan which it proposes to use in the Commonwealth. Also, no insurer shall make or issue a contract or policy except in accordance with filings or rates which are in effect at the time.

From the universe of 183 dwelling fire policies renewed during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

VII. CLAIMS

The Company was requested to provide copies of all established written claim handling procedures utilized during the experience period. Written claim handling procedures were received and reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claims review consisted of the following areas of review:

- A. Homeowner Claims
- B. Tenant Homeowner Claims
- C. Dwelling Fire Claims

The primary purpose of the review was to determine compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. The files were also reviewed to determine compliance with Act 205, Section 4 (40 P.S. §1171.4) and Section 5(a)(10)(vi) [40 P.S. §1171.5(a)(10)(vi)], Unfair Insurance Practices Act.

A. Homeowner Claims

From the universe of 1,264 homeowner claims reported during the experience period, 50 files were selected for review. All 50 files were received and reviewed. The 7 violations noted were based on 7 files, resulting in an error ratio of 14%.

The following findings were made:

7 Violations Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide timely status letters for the 7 claims noted.

B. Tenant Homeowner Claims

From the universe of 24 tenant homeowner claims reported during the experience period, 10 files were selected for review. All 10 files were received and reviewed. The violation resulted in an error ratio of 10%.

The following finding was made:

1 Violation Title 31, Pa. Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company did not provide a timely status letter for the claim noted.

C. Dwelling Fire Claims

From the universe of 62 dwelling fire claims reported during the experience period, 25 files were selected for review. All 25 files were received and reviewed. No violations were noted.

VIII. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy forms used in order to verify compliance with Insurance Company Law, Section 354 (40 P.S. §477b), Approval of Policies, Contracts, etc., Prohibiting the Use Thereof Unless Approved. During the experience period of the examination, Section 354 provided that it shall be unlawful for any insurance company to issue, sell, or dispose of any policy contract or certificate covering fire, marine, title and all forms of casualty insurance or use applications, riders, or endorsements in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner. All underwriting and claim files were also reviewed to verify compliance with Act 165 of 1994 [18 Pa. CS §4117(k)(1)], which requires all insurers to provide an insurance fraud notice on all applications for insurance and all claims forms.

No violations were noted.

IX. ADVERTISING

The Company was requested to provide copies of all advertising, sales material and internet advertisements in use during the experience period.

The purpose of this review was to determine compliance with Act 205, Section 5 [40 P.S. §1171.5], which defines unfair methods of competition and unfair or deceptive acts or practices in the business of insurance, as well as Title 31, Pennsylvania Code, Section 51.2(c) and Section 51.61.

The Company provided 15 pieces of advertising in use during the experience period. The advertising materials provided included: brochures, agent's kits, sponsor of high school events and newsletters. Internet advertising was also reviewed on the Company's website at www.lititzmutual.com. No violations were noted.

X. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for the preceding four years. The Company identified 20 consumer complaints received during the experience period and provided all consumer complaint logs requested. All 20 complaint files were requested, received and reviewed.

The purpose of the review was to determine compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5(a)(11) of the Act requires a Company to maintain a complete record of all complaints received during the preceding four years. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint.

The following finding was made:

1 Violation Act 205, Section 5(a)(9) [40 P.S. §1171.5(a)(9)]

Prohibits canceling any policy of insurance covering owneroccupied private residential properties or personal property of
individuals that has been in force for sixty days or more or refusing
to renew any such policy unless the policy was obtained through
material misrepresentation, fraudulent statements, omissions or
concealment of fact material to the acceptance of the risk or to the
hazard assumed by the company; or there has been a substantial
change or increase in hazard in the risk assumed by the company
subsequent to the date the policy was issued; or there is a substantial
increase in hazards insured against by reason of willful or negligent
acts or omissions by the insured; or the insured has failed to pay any

premium when due or for any other reasons approved by the Commissioner. The Company terminated the policy for an improper reason. The fix-it letter was sent to the agent and not the insured.

The following synopsis reflects the nature of the 20 complaints that were reviewed.

16	Cancellation/Nonrenewal	80%
• 4	Claims	20%
20		100%

XI. LICENSING

In order to determine compliance by the Company and its agency force with the licensing requirements applicable to Section 641.1(a) [40 P.S. §310.41(a) and Section 671-A [40 P.S. §310.71] of the Insurance Department Act No. 147, the Company was requested to furnish a list of all active producers during the experience period and a listing of all producers terminated during the experience period. Underwriting files were checked to verify proper licensing and appointment.

No violations were noted.

XII. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other statutory or regulatory violations, noted in the Report.

- The Company must review Act 205, Section 5(a)(9) [40 P.S.
 §1171.5(a)(9)] to ensure that the violation regarding the requirement for nonrenewal notices, as noted in the Report, does not occur in the future.
- 2. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and nonrenewal requirements of Act 86, Sections 3 and 4 [40 P.S. §§3403 and 3404], so that the violations noted in the Report do not occur in the future.
- 3. The Company must review Act 205, Section 5(a)(4) [40 P.S. §1171.5(a)(4)] to ensure that the violations relative to supporting coverage noted in the Report do not occur in the future.
- 4. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices so that the violations relating to status letters, as noted in the Report, do not occur in the future.
- 5. The Company must revise and reissue their underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Act 205, Section 5(a)(7)(iii) [40 P.S. §1171.5(a)(7)(iii)].

XIII. COMPANY RESPONSE



Lititz Mutual Insurance Company

2 North Broad Street, P.O. Box 900, Lititz, PA 17543-7007

Founded 1888

June 26, 2009

Chester A. Derk, Jr., AIE, HIA Market Conduct Division Chief Commonwealth of Pennsylvania Insurance Department Bureau of Enforcement 1321 Strawberry Square Harrisburg, Pennsylvania 17120

Re: Lititz Mutual Insurance Company

Market Conduct Examination

Examination Warrant Number: 08-M30-022 Experience Period: 7/01/2007 - 6/30/2008

Dear Mr. Derk,

Reference is made to your report of examination dated June 23, 2009 received in our office yesterday. I offer comments on, or the remedial actions we took as a result of this examination.

Comments:

Any of the procedures that lead to corrections noted in your recommendations, have already been put into place. As violations were noted during the examinations, corrected steps were taken to reinforce those issues with our staff.

Recommendations:

1. The Company must review Act 205, Section 5 (a) (9) [40 P.S. Sub Section 1171.5 (a) (9)] to ensure that the violation regarding the requirement for non-renewal notices, as noted in the Report, does not occur in the future.

Response:

Lititz Mutual has reviewed, and will continue, to review audit procedures to ensure that future Act 205 (all sections) violations do not occur. The two violations included:

a non-renewal for claims frequency which came as the result of an error in processing;

the other violation occurred when - the insured failed to respond to a more specific location to the property insured.

- 2. The Company must review and revise internal control procedures to ensure compliance relative to commercial cancellation and non-renewal requirements of Act 86, Sections 3 & 4 [40 P.S. Sub Sections 3403 & 3404], so the violations noted in the Report do not occur in the future.
- **Response:** The three violations occurred on agency billed accounts. We have instituted a reminder notice to the agent re-enforcing the Pennsylvania regulation requirements to prevent a future occurrence. We have very few agency billed accounts on file.
- 3. The Company must review Act 205, Section 5 (a) (4) [40 P.S. Sub Section 1171.5 (a) (4)] to ensure that violations relative to supporting coverage noted in the Report do not occur in the future.
- **Response:** Lititz Mutual was not aware of the Department's interpretation under this Act. Corrective steps have been instituted to prevent a reoccurrence of this violation.
- 4. The Company should review and revise internal control procedures to ensure compliance with the claims handling requirements of Title 31, of the Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices, so violations relating to status letters, as noted in the Report, do not occur in the future.
- Response: Lititz Mutual continues to pay very close attention to the Pennsylvania's requirement on status letters. A review of the accounts referenced indicated they were handled by a resigned member of our claims fast track unit. Steps have been taken to ensure that this does not occur in the future.
- 5. The Company must revise and reissue the underwriting guidelines for use in Pennsylvania to ensure that the guidelines do not exclude applicants from being eligible to obtain insurance for reasons established in Act 205, Section 5 (a) (7) (iii) [40 P.S. Sub Section 1171.5 (a) (7) (iii)].
- **Response**: Lititz Mutual has already instituted the procedural requirements set forth by Pennsylvania in regard to two Student Housing violations.

Page Three June 26, 2009 continued

Conclusions:

Our company's core values have included a commitment to fulfill our obligations to insurance department regulations. To honor this commitment we have enhanced our staff with the addition of an attorney to lead us in matters of compliance in our multi-state operation.

In closing, on behalf of Lititz Mutual, we acknowledge the professionalism exhibited by Constance Arnold, Joseph Neizen and Jerry Houston.

Please contact me if there is anything that may need further explanation. If I can be of further assistance, please advise me.

Sincerely,

Charles C. Muchand, En.

Charles "Arch" Michael, Sr. Vice President, Underwriting